

## Message Text

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ACTION EUR-12

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-----083954 261831Z /45  
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FM AMEMBASSY LISBON  
TO SECSTATE WASHDC 2374

C O N F I D E N T I A L SECTION 1 OF 3 LISBON 5780

E.O. 11652: GDS  
TAGS: PINT, PGOV, PO  
SUBJECT: THE POLITICAL BALANCE IN THE WAKE OF THE  
AGRARIAN REFORM VOTE

REF: LISBON 5696

SUMMARY: TE OUTCOME OF THE AGRARIAN REFORM VOTE POINTS  
TOWARD CHANGES IN THE BALANCE OF POLITICAL FORCES.  
DEMOCRATIC INSTITUTIONS HAVE BEEN STRENGTHENED; THE  
COMMUNISTS HAVE SUFFERED A SERIOUS REVERSE; THE POLITICAL  
CENTER HAS BEEN BROADENED; AND PROSPECTS FOR ECONOMIC  
RECOVERY ARE IMPROVED. DESPITE THE PROMISING MOVE TOWARD  
COOPERATION, THE PS-PSD PARLIAMENTARY UNDERSTANDING SHOULD  
NOT BE OVERSOLD. PARTISAN ISSUES AND PSD DEMANDS FOR  
SPOILS WILL STRAIN THE RELATIONSHIP. AND, MORE  
IMPORTANT, PORTUGAL'S POLITICAL INSTITUTIONS  
ARE STILL HOSTAGE TO THE COUNTRY'S ECONOMIC PLIGHT.  
END SUMMARY.

1. IMPACT OF THE PARTIES: THE RESULTS OF THE AGRARIAN  
REFORM VOTE AND THE WAY IT WAS ACHIEVED HAVE CONFIRMED  
SOME SIGNIFICANT SHIFTS IN THE BALANCE OF POLITICAL  
FORCES. THE EFFECTS ON THE POLITICAL PARTIES ARE THE  
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MOST APPARENT.

(A) THE SOCIALISTS: FORCED TO ACCEPT AN  
UNDERSTANDING WITH THE DEMOCRATIC OPPOSITION, THE PS NONETHELESS  
EMERGED MORE COHESIVE. THE PARLIAMENTARY PRAGMATISTS--  
JAIME GAMA, ANTONIO GUTERRES, ANTONIO REIS, FRANCISCO  
SALGADO ZENHA, AND JORGE CAMPINOS--HAVE BEEN STRENGTHENED.

AGRICULTURE MINISTER ANTONIO BARRETO COMES OUT A BIG WINNER. THE PARTY RESISTED PRESSURES FROM THE DEMOCRATIC OPPOSITION FOR A FORMAL ALLIANCE. LOPES CARDOSO AND FELLOW MEMBERS OF THE "WORKERS BROTHERHOOD" HAVE BEEN ISOLATED. DISCIPLINE WITHIN THE PARLIAMENTARY GROUP IS ASSURED. THE SOCIALISTS CAN NOW ZERO IN ON THE COMMUNISTS IN THE ALENTEJO, ROOTING OUT IN THE PROCESS LOPES CARDOSO SYMPATHIZERS STILL IN LEADERSHIP POSITIONS AMONG PS COOPERATIVES.

(B) THE SOCIAL DEMOCRATS: THE PSD SCORED A BREAKTHROUGH. THE SOCIAL DEMOCRATS FORCED THE PS TO COME TO TERMS. THE PSD WISELY PICKED AN ISSUE ON WHICH THE SOCIALISTS HAD NO OPTION TO THE LEFT; DESPITE REPEATED COMMUNIST CALLS FOR DIALOGUE, THERE WAS NEVER REALLY ANY POSSIBILITY FOR PS-PCP COMPROMISE. BUT THE OUTCOME ALSO REVEALED STRAINS WITHIN THE PSD. ONCE THE DEAL WITH THE SOCIALISTS WAS STRUCK, THE LISBON PSD "MODERATES" PREVAILED OVER SA CARNEIRO AND THE NORTHERN "HARDLINERS" WHO FAVORED AN ABSTENTION INSTEAD OF A YES VOTE. SA CARNEIRO WOULD LIKE TO BE PRIME MINISTER HOWEVER, HE DOES NOT BELIEVE HE WILL GET THERE BY BEING SOFT ON THE SOCIALISTS.

(C) THE CENTER DEMOCRATS: THE CDS CAST A CALCULATED NO VOTE. FREITAS DO AMARAL AND THE TOP LEADERSHIP RECOGNIZED THE IMPORTANCE OF THE BILL PASSING. BUT THE CONFIDENTIAL

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CDS LEADERSHIP WAS UNDER GREAT PRESSURE FROM PARTY RIGHTWINGERS, SPEARHEADED BY THE ULTRA-CONSERVATIVE PORTUGUESE CONFEDERATION OF FARMERS (CAP). ALTHOUGH THE CAP LEADERSHIP HAD SOME SECOND THOUGHTS ABOUT ITS NEGATIVE POSITION AS THE VOTE APPROACHED, THE CAMPAIGN WHICH CAP HAD WAGED AGAINST THE LAW SIMPLY COULD NOT BE TURNED OFF ON SHORT NOTICE. IRONICALLY, THE CDS NO VOTE MAY CONTRIBUTE TO OVERALL POLITICAL STABILITY. IT SHOULD HELP TO KEEP PARTY RIGHTWINGERS ON THE RESERVATION. IT REMOVES A POTENTIAL ISSUE WHICH MIGHT HAVE BEEN EXPLOITED BY MIRN AND CAP ULTRAS.

(D) THE COMMUNISTS: THE PCP FACED THE ASSEMBLY TEST WITH BITTER RESIGNATION. THE COMMUNISTS KNEW FROM THE BEGINNING THEY DID NOT HAVE THE VOTES. THEIR ONLY HOPE WAS TO STRIKE SOME KIND OF BARGAIN WITH THE GOVERNMENT.

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TO STRENGTHEN THEIR POSITION THEY MOUNTED A MAJOR PUBLIC CAMPAIGN AGAINST THE GOVERNMENT'S BILL. AGRICULTURE MINISTER ANTONIO BARRETO, HIMSELF A FORMER PCP MEMBER, WAS DAILY VILIFIED AS THE ARCHITECT OF A MASTER PLAN TO DISMANTLE ONE OF THE MAJOR CONQUESTS OF THE REVOLUTION. THE COMMUNISTS PUNCTUATED THE CAMPAIGN WITH THREATS TO TAKE TO THE STREETS TO PREVENT ENACTMENT OF THE BILL. THE GOVERNMENT AND THE PRESIDENT RESPONDED WITH FIRMNESS. THE COMMUNISTS NOW CONFRONT A DILEMMA. THEY CAN MAKE GOOD THEIR THREAT TO GO TO THE STREETS AND FACE THE PROSPECT OF ANOTHER NOVEMBER 1975 DEBACLE. OR THEY CAN ACQUIESCE AND SEE THEIR BASES IN THE ALENTEJO STEADILY ERODED. THE PCP CENTRAL COMMITTEE WILL MEET LATER THIS WEEK TO CONSIDER NEXT STEPS.

2. IMPACT ON POLITICAL INSTITUTIONS: INSTITUTION-BUILDING HAS TAKEN A STEP FORWARD AND POLITICAL ROLES CLARIFIED.

(A) THE GOVERNMENT: THE PS-PSD UNDERSTANDING CLEARS THE WAY FOR THE PROMPT ENACTMENT OF KEY ECONOMIC LEGISLATION. THE CURRENT LEGISLATIVE SESSION WILL BE EXTENDED, PROBABLY UNTIL MID-AUGUST, TO COMPLETE ACTION ON PENDING BILLS. THE GOVERNMENT HAS EFFECTIVELY REAFFIRMED ITS MANDATE BY BROADENING ITS PARLIAMENTARY BASE OF  
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SUPPORT. IN THE PROCESS, PRIME MINISTER SOARES HAS STRENGTHENED HIS TIES WITH THE PRESIDENT. SOARES NOW HAS THE BREATHING SPACE TO RESHUFFLE THE CABINET IN THE FALL, ALTHOUGH THE PRESIDENT WILL CERTAINLY PLAY ROLE AND MAY EVEN SUGGEST NAMES.

(B) THE ASSEMBLY: THE ASSEMBLY HAS OVERCOME AN IMPORTANT CHALLENGE. AFTER ALMOST A YEAR OF LETHARGY AND SKETCHY PERFORMANCE, THE ASSEMBLY IS FINALLY BEGINNING TO ASSUME SOMETHING LIKE THE ROLE ENVISIONED FOR IT IN THE CONSTITUTION. INTER-PARTY CONSULTATION MECHANISMS HAVE BEEN FORMALIZED. THE SOCIALISTS HAVE LEARNED A BASIC LESSON IN PARLIAMENTARY ARITHMETIC. THE DEMOCRATIC OPPOSITION HAS WON A VOICE IN THE DECISION-MAKING PROCESS. A CONSENSUS EXISTS ON THE SHAPE OF BASIC ECONOMIC LEGISLATION AND ON THE NEED TO CUT THE PCP DOWN TO SIZE. BUT THE PS-PSD UNDERSTANDING SHOULD NOT BE OVERSOLD. LEGISLATION BEFORE THE ASSEMBLY SHOULD PASS, BUT IT WILL BE FAR MORE DIFFICULT TO REACH AGREEMENT ON PARTISAN ISSUES SUCH AS CONTROL OF THE MEDIA, AND THE DIVISION OF AUTHORITY BETWEEN CENTRAL AND LOCAL GOVERNMENTS. THE ALREADY CUMBERSOME DECISION-MAKING PROCESS WILL BE FURTHER COMPLICATED BY THE NEED FOR CONSULTATIONS WITH THE PSD. PSD DEMANDS FOR POLITICAL SPOILS WILL FURTHER TEST THE RELATIONSHIP. AND THERE MAY BE SOME PS BACKSLIDING.

(C) THE PRESIDENCY: WITHOUT STRONG PRESIDENTIAL SUPPORT, MUCH OF IT BEHIND THE SCENES, THE AGRARIAN REFORM BILL PROBABLY WOULD NOT HAVE PASSED. THE PRESIDENT CONSULTED REGULARLY WITH AGRICULTURE MINISTER BARRETO DURING THE DRAFTING OF THE BILL. HE RECEIVED BARRETO ON THE EVE OF THE ASSEMBLY DEBATE. IT WAS THE PRESIDENT WHO ORDERED JAIME NEVES AND THE COMMANDOS INTO THE CONFIDENTIAL

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ALENTEJO. IT WAS EANES HIMSELF WHO PASSED THE WORD TO CUNHAL THAT NO NONSENSE WOULD BE TOLERATED. ALTHOUGH THE PRESIDENT WAS CAREFUL NOT TO OVERSTEP HIS CONSTITUTIONAL PREROGATIVES, THERE WAS NEVER ANY DOUBT ABOUT WHERE HE STOOD. THE RESULT IS ANOTHER INDICATION OF THE EVOLVING ROLE OF THE PRESIDENCY AS THE KEY FACTOR IN MAINTAINING THE STABILITY OF NASCENT DEMOCRATIC INSTITUTIONS. THE GOVERNMENT WILL INTENSIFY ITS EFFORTS TO IDENTIFY THE PRESIDENT WITH ITS POLICIES. BOTH THE PS AND THE PSD WILL SEEK TO USE HIM AS THE ARBITER OF DIFFERENCES BETWEEN THEM.

3. ASSUMING THE PS-PSD UNDERSTANDING PROSPERS, THE OUTCOME REPRESENTS A SERIES OF PLUSES FOR U.S. INTERESTS.

(A) DEMOCRATIC INSTITUTIONS HAVE BEEN STRENGTHENED. FACED WITH IMPASSE AND THE PROSPECT OF POLITICAL POLARIZATION, THE DEMOCRATIC PARTIES HAD THE GOOD SENSE TO COMPROMISE THEIR DIFFERENCES. MECHANISMS FOR DIALOGUE

AND INTER-PARTY COOPERATION HAVE BEEN STRENGTHENED. AND,  
IN THE PROCESS, PROSPECTS FOR THE LONGER-TERM SUCCESS  
OF PORTUGAL'S EXPERIMENT IN DEMOCRACY HAVE IMPROVED.

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(B) THE COMMUNISTS HAVE SUFFERED A SERIOUS  
SETBACK. THE SOCIALISTS HAVE DROPPED ALL PRETENSE OF  
COOPERATION WITH THE PCP. COMMUNIST CALLS FOR A  
MAJORITY-OF-THE-LEFT COALITION WILL HAVE  
A HOLLOW RING. THE END OF A PHASE IN PCP STRATEGY MAY  
BE AT HAND. PCP DEPUTY VICTOR LOURO, WEARY FROM HOURS  
OF EXCHANGING EPITHETS WITH HIS PS COLLEAGUES ON THE  
ASSEMBLY FLOOR, MAY HAVE SIGNALLED THE SHIFT WHEN HE  
REFERRED TO THE SOCIALISTS AS "TRAITORS TO THEIR CLASS."  
THE PCP WOOING OF THE SOCIALISTS HAD ALWAYS RESEMBLED  
SOMETHING OF A CHARADE, BUT IT HAD BEEN IN THE INTERESTS  
OF BOTH PARTIES TO KEEP THE POSSIBILITY OPEN. THAT MAY  
NO LONGER BE TRUE. THE SOCIALISTS BY THEIR ACTIONS HAVE  
REJECTED THE PCP OFFER OF LABOR PEACE IN EXCHANGE FOR  
STABILIZATION OF THE STATUS QUO. ONE THING IS CERTAIN:  
THE PCP WILL NOT THROW IN THE TOWEL. A GOOD BET WOULD  
BE AN INITIAL PCP EFFORT TO PUSH PS DISSIDENTS  
AND UNWARY UDP'ERS INTO THE POLITICAL LINE OF FIRE IN THE ALENTEJO.

(C) A GRADUAL REALIGNMENT OF POLITICAL FORCES IS  
UNDERWAY...SOARES AND THE MODERATE LEADERSHIP OF THE  
PS HAVE DISCIPLINED THE PARTY'S LEFT WING. MORE  
IMPORTANT, THE LEFTIST COMPLEX WHICH LOPES CARDOSO AND  
HIS "WORKERS BROTHERHOOD" REPRESENTED IN THE SOCIALIST  
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PARTY HAS BEEN SHED. THE CAREFUL, DELIBERATE MANNER IN WHICH THIS WAS ACCOMPLISHED HAS ENABLED THE PS TO MOVE PRAGMATICALLY TO THE RIGHT. THE PRIMACY OF PRAGMATISM WITHIN THE PS COINCIDES WITH THE RESURGENCE OF MODERATE PSD LEADERSHIP. SOCIAL DEMOCRATIC MODERATES HAVE REASSERTED THEIR CLAIM TO LEADERSHIP. SA CARNEIRO IS STILL IN CHARGE, AND THE GRASS-ROOTS ORGANIZATION IN THE NORTH IS FIRMLY IN CONSERVATIVE HANDS. BUT THOSE FAVORING A LASTING RAPPROCHEMENT WITH THE SOCIALISTS HAVE MADE AN IMPORTANT BREAKTHROUGH. MODERATE PSD LEADERS, INCLUDING BARBOSA DE MELO, SOUSA FRANCO, PINTO BALSEMAO, AND SERVULO CORREIA WORK WELL WITH THEIR PS COUNTERPARTS AND ARE LIKELY TO HAVE A PRIVILEGED PLACE IN THE DIALOGUE WITH THE GOVERNMENT. AT THE SAME TIME THE CENTER DEMOCRATS ARE TACKLING TO THE RIGHT TO PREEMPT THE POTENTIAL CHALLENGE FROM THE ULTRAS. THE RESULT IS A STRENGTHENED POLITICAL CENTER, AN INTELLIGENTLY-LED DEMOCRATIC PARTY ON THE RIGHT, AND AN INCREASINGLY ISOLATED PCP ON THE LEFT.

(D) PROSPECTS FOR ECONOMIC RECOVERY ARE IMPROVED. THE GOVERNMENT AND THE DEMOCRATIC OPPOSITION HAVE COMMITTED THEMSELVES TO PRAGMATIC SOLUTIONS. THE WAY HAS BEEN CLEARED FOR MAJOR ECONOMIC LEGISLATION. THE GOVERNMENT IS IN A STRONGER POSITION TO TAKE DIFFICULT MEASURES TO DEAL WITH THE INCREASINGLY SERIOUS BALANCE OF PAYMENTS PROBLEM. BUT THE SOCIALISTS WILL HAVE TO PERSUADE THE DEMOCRATIC OPPOSITION TO GO ALONG.

(E) THE PS-PSD PARLIAMENTARY UNDERSTANDING SHOULD IMPROVE PROSPECTS FOR COOPERATION IN OTHER AREAS INCLUDING LABOR. IT WILL TAKE TIME FOR THE PS AND PSD TO EXTEND THEIR PARLIAMENTARY AGREEMENT INTO OTHER AREAS, AND WE WILL HAVE TO MOVE CAREFULLY TO EXPLOIT THE OPPORTUNITIES.

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(F) BETTER PS-PSD RELATIONS IMPROVES PROSPECTS FOR A SUCCESSFUL CONCLUSION TO THE AZORES NEGOTIATIONS. THE PS, NEEDING PSD SUPPORT IN THE ASSEMBLY, WILL BE LESS PRONE TO EXPLOIT AZOREAN ISSUES TO EMBARRASS THE SOCIAL DEMOCRATS AND THE PSD-CONTROLLED AZOREAN REGIONAL GOVERNMENT.

4. DRAWING THE BALANCE: THE PORTUGUESE POLITICAL SYSTEM HAS PASSED A MAJOR TEST. BUT, AS THE DEPARTMENT IS AWARE, PORTUGAL'S NEW CONSTITUTIONAL INSTITUTIONS

ARE STILL HOSTAGE TO THE COUNTRY'S ECONOMIC PLIGHT:

- AN INFLATION RATE OF 35 PERCENT.
  - UNEMPLOYMENT AT 15 PLUS PERCENT
  - SLUGGISH INVESTMENT.
  - A WHOPPING BUDGET DEFICIT ON THE ORDER OF  
\$1.6 BILLION.
  - A BALANCE OF PAYMENTS DEFICIT APPROACHING \$1 BILLION ANNUALLY.
  - A DEMORALIZED AGRICULTURE SECTOR BADLY IN NEED OF  
REORGANIZATION.
- SOME VERY BIG IFS REMAIN.  
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## Message Attributes

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